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The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

JOSEPH DENUCCI
AUDITOR

TEL (617) 727-2075

92-670-2

Mr. Joel Searle, Chairman
Hadley Housing Authority
Golden Court Apartments
Hadley, Massachusetts 01035

GOVERNMENT DOCUMENTS
COLLECTION

OCT 27 1992

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April 29, 1992

Dear Mr. Searle:

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of the Hadley Housing Authority. We examined selected financial and operational activities of the Authority for the period October 1, 1990 to September 30, 1991 to determine whether the Authority complied with applicable laws and regulations. Our audit was conducted in accordance with generally accepted government auditing standards for financial-related audits and accordingly included such tests as we considered necessary.

Our audit procedures consisted of the following:

- a. Review of tenant-selection procedures to ensure that tenants were selected in accordance with Executive Office of Communities and Development (EOCD) regulations.
- b. Review of annual rent-determination procedures by testing selected tenants' files to ensure that rents are calculated properly and in accordance with EOCD regulations.
- c. Review of development and modernization awards to verify that contracts are awarded in accordance with public bidding laws and EOCD regulations and that change orders are allowable. We also tested related disbursements to ensure that payments are properly authorized and in compliance with contract provisions and EOCD regulations.

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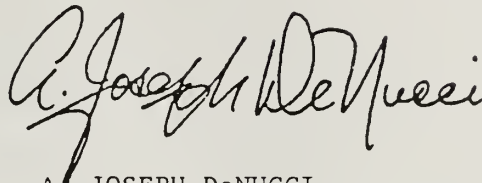
- d. Review of vacancy records to determine whether the Authority's procedures for preparing and filling vacant units for new tenants meet EOCD's time frames for one-bedroom and two- (or more) bedroom units.
- e. Review of travel-related expenses and payments to board members and employees to ensure compliance with EOCD regulations on travel and related reimbursements.
- f. Review of property and equipment inventory-control procedures to determine compliance with EOCD regulations.
- g. Review of cash-management and investment policies and practices to ensure that the Authority is maximizing its interest income and that its deposits are fully insured.
- h. Review of operating reserve accounts to ensure that the Authority's reserves fall within EOCD's provisions for maximum and minimum allowable amounts.
- i. Review of EOCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program are within budgetary limits and that required fiscal reports are submitted to EOCD in a complete, accurate, and timely manner.
- j. Review of level of need for operating subsidies and determination of whether the amount earned is consistent with the amount received from EOCD.
- k. Review of the Authority's progress in addressing the issue noted in our prior audit report (No. 90-670-1), which covered the period October 1, 1988 to September 30, 1989. (See Attachment.)

Our tests in the above-mentioned areas disclosed no material weaknesses.

Based on our review, we have concluded that during the 12-month period ended September 30, 1991, the Authority complied with the provisions of laws and regulations covering tenant selection, rent determinations, development and modernization awards, procedures for preparing and filling vacant units for new tenants, travel-related expenses and payments, cash- management and investment policies, allowable amounts for operating reserves, and operating budgets. However, as discussed in the accompanying Attachment, our tests in the above-mentioned areas revealed that the Authority received excessive operating subsidies totalling \$7,311 from EOCD and was in

noncompliance with EOCD's requirements over the controlling and reporting of fixed assets.

Sincerely,

A handwritten signature in black ink, reading "A. Joseph DeNucci". The signature is written in a cursive, flowing style with a large initial "A" and a long, sweeping underline.

A. JOSEPH DeNUCCI
Auditor of the Commonwealth

cc: Stanley Paulson, Executive Director

ATTACHMENT

1. Resolution of Prior Audit Result

We conducted a follow-up review of the issue noted in our prior audit report (No. 90-670-1) on the activities of the Hadley Housing Authority, covering the period October 1, 1988 to September 30, 1989. Our follow-up review indicated that the Authority has satisfactorily addressed the prior issue pertaining to the absence of an EOCD-approved Management Plan for controlling administrative and operational functions. Specifically, we found that the Authority's Management Plan was completed in March 1991 and approved by EOCD in April 1991.

2. Excessive Operating Subsidies of \$7,311 Received by the Authority

During our current audit, we evaluated the Authority's level of need for operating subsidies in comparison to the amounts received from EOCD, and our results indicated that EOCD has continually over-subsidized the Authority for its Elderly Housing Program (667). As of the end of our audit period, we determined that the Authority had received excess subsidy amounts totalling \$7,311.

Our review of Program 667's operating subsidy account reflected that, on October 1, 1989, the Authority had an excess operating subsidy balance of \$3,699. Although this amount was reported by the Authority to EOCD on its financial statements as an account payable due EOCD, the Authority continued to receive from EOCD four subsidy payments, totalling \$8,353, during the one-year period from October 1989 to October 1990. Since the Authority only earned operating subsidies totalling \$4,741 during this period, it had an excess subsidy amount of \$7,311. Our calculations are explained below:

Comparison of Amounts of Operating Subsidies Received vs. Earned
During the Period October 1989 to October 1990

| | | |
|---|--------------|-----------------|
| Beginning Balance Due EOCD (as of October 1989) | | \$ 3,699 |
| EOCD Subsidies Received | | |
| November 1989 | \$1,830 | |
| March 1990 | 1,587 | |
| July 1990 | 2,964 | |
| October 1990 | <u>1,972</u> | |
| | | 8,353 |
| Subtotal | | \$12,052 |
| Less: Subsidies Earned | | |
| September 1990 | | 4,741 |
| Total Amount Due EOCD | | <u>\$ 7,311</u> |

Prudent business practices advocate that EOCD properly monitor and distribute operating subsidies only to those local housing authorities that need or earn them based on EOCD's prescribed formula. Moreover, if a local housing authority is unjustifiably receiving funds that could be used for housing elsewhere, it is the responsibility of EOCD to ensure that those funds are returned to the Commonwealth.

Recommendation: The Authority and EOCD should work together to expeditiously resolve the disposition of these excess operating subsidies.

Auditee's Response: The Authority indicated in its written response that EOCD, in a letter to the Authority dated January 17, 1992, requested the return of \$7,311 in subsidy funds that had been advanced in prior years and that were not needed by the Authority during this budget year. Consistent with this request, the Authority reported that it had returned a total of \$7,311 to EOCD on February 4, 1992.

3. Noncompliance with EOCD's Requirements on Inventory Controls over the Controlling and Reporting of Fixed Assets

Our examination of the Authority's procedures for controlling and reporting fixed assets (i.e., furniture and non-expendable equipment) revealed that the Authority was in noncompliance with the Executive Office of

Communities and Development's (EOCD's) requirements on inventory controls contained in EOCD's Accounting Manual for State-Aided Housing Programs.

EOCD's Accounting Manual for State-Aided Housing Programs, Section 15-5 through 15-8, requires local housing authorities to establish a formal system for the inventory of furniture and equipment. The inventory procedures include, among other items, the following:

1. A physical inventory of all furniture and non-expendable equipment must be taken, and an inventory list must be maintained each year.
2. An inventory is to be established showing the original cost (or fair market value) of all equipment that is presently known to exist that has been purchased with state funds. Once the inventory value is established, an accounting entry should be made to debit Account 1400.4, Inventory of Furniture and Equipment, and to credit Account 2400, Valuation of Fixed Assets, for items purchased during the management period. Items purchased during the development phase require an entry to debit Account 1400.5, Valuation of Fixed Assets, and to credit Account 1400.5, Development Cost - Inventory of Furniture and Equipment.
3. All purchases of equipment that has an expected life of more than one year and cost \$300 or more per unit must be capitalized. Ranges and refrigerators must be capitalized in all cases.
4. Physical inventory results must be compared to furniture and equipment record card files, and any differences and discrepancies should be reviewed by the Authority for possible adjustments.

In addition, the Authority's inventory policy states that all non-expendable furniture and equipment with an estimated replacement cost of \$100 or more must be recorded on the Master Inventory List.

We found during our current audit that the Authority was in noncompliance with EOCD requirements on inventory controls. Specifically, we found that the Authority did not conduct an annual physical inventory of its property and equipment and, in fact, the most recent inventory taken by the Authority was performed in 1989. Also, although the Authority did maintain both an inventory listing of its furniture and equipment items and furniture and equipment record cards, our review of the Authority's inventory records indicated that improvements were still needed in the reporting or recording of

the asset value of property and equipment items on its books of records and financial statements. In particular, not only did we find discrepancies between the asset value amounts reported on the Authority's financial statements and the Master Inventory List but we determined the valuations to be incorrect, as explained below.

| | <u>Total Value of Equipment and Property Items Per Financial Statement</u> | <u>Total Value of Equipment and Property Items Per Master Inventory List</u> | <u>Correct Valuations Per Our Analysis</u> |
|--|--|--|--|
| Elderly Housing Program(667) | \$50,058 | \$53,563 | \$40,118 |
| Family Scattered-Site Housing Program (705) | 10,499 | 9,779 | 19,522 |
| Total | <u>\$60,507</u> | <u>\$63,342</u> | <u>\$59,640</u> |

The specific discrepancies that we found are described in the following:

- a. A computer, purchased at a cost of \$3,353 and paid from funds from the Authority's Family Scattered-Site Housing Program (705) in development, was included in the value of equipment items reported on the financial statement of both the Elderly Housing Program (667) and the Family Scattered-Site Housing Program (705).
- b. A new lawn tractor, valued at \$6,390 on the financial statement of the Family Scattered-Site Housing Program (705), was reflected on the Elderly Housing Program's (667) Master Inventory List for \$2,392.
- c. An old tractor that had been traded in was still reflected on the Elderly Housing Program's (667) records at a \$7,000 value.
- d. A \$428 ladder was recorded on the Family Scattered-Site Housing Program's (705) Master Inventory List, but was not recorded on the financial statements for this program.
- e. Ranges and refrigerators costing \$8,595 were not reflected on the inventory records for the Family Scattered-Site Housing Program (705).
- f. Numerous hand tools as well as office and maintenance supplies, costing less than \$100 each, were included on the Elderly Housing Program's (667) Master Inventory List, contrary to the Authority's Inventory Policy.

Because the Authority did not comply with EOCD's regulations that require the Authority to conduct annual physical inventories and accurately report the asset values of equipment and furniture items on its Master Inventory List and financial statements, the Authority and therefore EOCD have limited knowledge of how much

furniture and equipment was purchased with state funds and little assurance that the Authority has proper inventory controls over its furniture and equipment.

Recommendation: The Authority should implement the procedural steps necessary for it to be in compliance with EOCD regulations on inventory controls. Specifically, the Authority should--

1. Conduct an annual physical inventory of all its furniture and equipment items and update its Master Inventory List to reflect the results of this process.
2. Remove items from its Master Inventory List that are of small dollar value and add the value of all ranges and refrigerators; and
3. Make the necessary adjustments to the asset values reflected on its Master Inventory List and financial statements and ensure that all valuations reported are in agreement.

Auditee's Response: The Authority indicated in its written response that it has implemented our audit recommendations and "has made the necessary corrections and deletions for the Authority to be in compliance with EOCD regulations."

